expenses, in both absolute and percentage terms, thereby improving their productivity ratios.

P&C Canada is BMO's largest operating segment, and its productivity ratio of 56.3% improved by 40 basis points from last year, after having improved by 74 basis points in 2006. The productivity improvement was lowered by some notable items that affected revenues, most notably the adjustment to the liability for future customer loyalty rewards redemptions. P&C Canada's productivity ratio would have improved by 133 basis points in the absence of such items. Private Client Group productivity improved by 140 basis points to 69.4%. The group's productivity has improved substantially over the past four years as it has grown revenues while practicing effective expense management. The productivity ratio in P&C U.S. deteriorated by 143 basis points because revenue grew more slowly than expenses. Revenue growth has been reduced by a decline in net interest margin, while expense growth primarily reflects acquisition-related expenses. Management has focused on controlling expenses in a challenging revenue environment. In the fourth quarter of 2007, excluding the impact of acquisition integration costs, the P&C U.S. cash productivity ratio fell below 70.0%. BMO Capital Markets' productivity ratio deteriorated significantly, rising more than 20 percentage points. Excluding the significant items that affected results in 2007, productivity improved by 399 basis points to 53.6%.

BMO's cash productivity deteriorated in 2007 because of the significant items. Excluding the impact of those items, the cash productivity ratio improved by 150 basis points. We improved BMO's overall cash productivity ratio in 2006 by 25 basis points to 62.4%, after having improved the ratio by 538 basis points over the three previous years.

Examples of initiatives to enhance productivity are outlined in the 2007 Review of Operating Groups Performance, which starts on page 42. In 2008, we are targeting operating leverage of 2%, increasing revenues by at least two percentage points more than the rate of cash-based expense growth. We plan to achieve this by driving revenues through an increased customer focus, by ongoing expense management, and by working to create greater efficiency and effectiveness in all support functions, groups and business processes that support the front line.

Provision for Income Taxes

The provision for income taxes reflected in the Consolidated Statement of Income is based upon transactions recorded in income, regardless of when such transactions are subject to taxation by tax authorities, with the exception of the repatriation of retained earnings from foreign subsidiaries, as outlined in Note 24 on page 128 of the financial statements.

As explained on pages 34 and 36, BMO adjusts revenue to a taxable equivalent basis for analysis, with an offsetting adjustment to the provision for income taxes. The adjustment was $180 million in 2007, up from $127 million in 2006. Unless indicated otherwise, the provision for income taxes and associated tax rates are stated on a taxable equivalent basis in this MD&A. In 2008, we will no longer report on a taxable equivalent basis when reporting consolidated results, as explained further on page 36.

The provision for income taxes charged against earnings was $369 million, compared with $844 million in 2006. The reduction was primarily due to lower income in the current year. The effective tax rate in 2007 was 14.3%, compared with 23.6% in 2006. The low effective rate was due to a relatively higher proportion of income from lower-tax-rate jurisdictions and the favourable resolution of income tax audits that resulted in the recovery of prior year income taxes. In 2006, there were recoveries of prior year income taxes in addition to tax recoveries from business-based initiatives. The components of variances between the effective and statutory Canadian tax rates are outlined in Note 24 on page 128 of the financial statements.

Excluding any special adjustments, we expect that the effective tax rate in 2008 should be 21% to 24% on a non-teb basis and consider that rate to be sustainable.

BMO hedges the foreign exchange risk arising from our net investment in our U.S. operations by funding the net investment in U.S. dollars. Under this program, the gain or loss on hedging and the unrealized gain or loss on translation of our net investment in U.S. operations are charged or credited to retained earnings, but usually are approximately equal and offsetting. For income tax purposes, the gain or loss on hedging activities incurs an income tax charge or credit in the current period, which is charged or credited to retained earnings; however, the associated unrealized gain or loss on our net investment in U.S. operations does not incur income taxes until the investment is liquidated. The income tax charge/benefit arising from a hedging gain/loss is a function of fluctuations in exchange rates from period to period. The $1,659 million gain on hedging our net investment in U.S. operations in 2007 was subject to an income tax charge of $575 million recorded in retained earnings, compared with a $451 million gain on hedging and a $156 million income tax charge in 2006. Refer to the Consolidated Statement of Changes in Shareholders' Equity on page 94 of the financial statements for further details.

Table 8 on page 81 details the $1,022 million of total government levies and taxes incurred by BMO in 2007. The reduction in provincial capital taxes in 2007 was primarily due to the resolution of audit issues with the taxing authorities.

Transactions with Related Parties

In the ordinary course of business, we provide banking services to our directors and executives and their affiliated entities, joint ventures and equity-accounted investees on the same terms that we offer to our customers. A select suite of customer loan and mortgage products is offered to our employees at rates normally accorded to our preferred customers. We also offer employees a fee-based subsidy on annual credit card fees.

Stock options and deferred share units granted to directors are discussed in Note 27 on page 132 of the financial statements.

Preferred rate loan agreements for executives, relating to transfers we initiate, are discussed in Note 27 on page 132 of the financial statements.

2007 Review of Operating Groups Performance

This section includes an analysis of the financial results of our operating groups and descriptions of their businesses, visions, strategies, strengths, challenges, key performance drivers, achievements and outlooks.

Personal and Commercial Banking (P&C) (pages 43 to 48)
Net income was $1,364 million in 2007, an increase of $107 million or 9% from 2006.

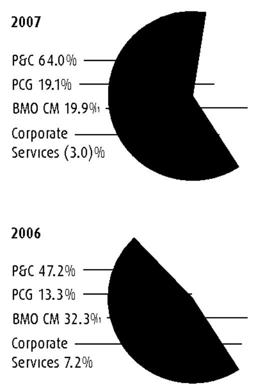
Private Client Group (PCG) (pages 49 to 51)
Net income was $408 million in 2007, an increase of $53 million or 15% from 2006.

BMO Capital Markets (BMO CM) (pages 52 to 54)
Net income was $425 million in 2007, a decrease of $435 million or 51% from 2006.

Corporate Services, including Technology and Operations (page 55)
Net loss of $66 million in 2007, compared with net income of $191 million in 2006.

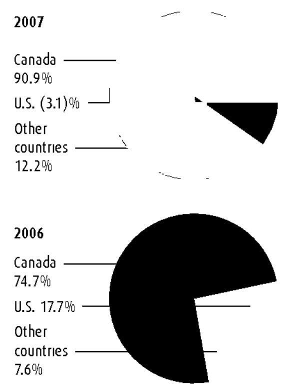
The basis for the allocation of results geographically and among operating groups is outlined in Note 26 on page 130 of the financial statements. Certain prior year data has been restated, as explained on page 22.

Net Income by Operating Group



The significant items charged to BMO CM and Corporate Services shifted the net income mix in 2007.

Net Income by Country



The impact of significant items in 2007 was recorded primarily in the United States.

Contributions to Revenue, Expenses, Net Income and Average Assets by Operating Group and by Location ($ millions, except as noted)

	Personal and Commercial Banking			Private Client Group			BMO Capital Markets			Corporate Services, including Technology and Operations			Total Consolidated		
For the year ended October 31	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005
Operating Groups Relative Contribution to BMO's Performance (%)															
Revenue	**59.3**	54.3	52.4	**21.5**	18.7	20.5	**20.7**	27.5	27.5	**(1.5)**	(0.5)	(0.4)	**100**	100	100
Expenses	**51.0**	51.6	49.6	**21.6**	21.1	24.1	**23.7**	25.2	23.4	**3.7**	2.1	2.9	**100**	100	100
Net income	**64.0**	47.2	50.1	**19.1**	13.3	13.1	**19.9**	32.3	35.5	**(3.0)**	7.2	1.3	**100**	100	100
Average assets	**39.6**	44.1	42.8	**2.0**	2.1	2.4	**57.4**	52.3	53.0	**1.0**	1.5	1.8	**100**	100	100
Total Revenue															
Canada	**4,598**	4,455	4,217	**1,784**	1,609	1,486	**1,394**	1,380	1,339	**(195)**	(49)	(23)	**7,581**	7,395	7,019
United States	**908**	906	897	**263**	276	544	**486**	1,309	1,289	**(102)**	(100)	(90)	**1,555**	2,391	2,640
Other countries	**145**	125	102	**7**	8	7	**89**	91	113	**152**	102	77	**393**	326	299
	5,651	5,486	5,216	**2,054**	1,893	2,037	**1,969**	2,780	2,741	**(145)**	(47)	(36)	**9,529**	10,112	9,958
Total Expenses															
Canada	**2,663**	2,588	2,468	**1,164**	1,070	1,022	**717**	753	724	**241**	109	109	**4,785**	4,520	4,323
United States	**696**	681	659	**262**	271	506	**695**	726	654	**–**	17	62	**1,653**	1,695	1,881
Other countries	**7**	9	13	**1**	1	1	**153**	123	102	**2**	5	12	**163**	138	128
	3,366	3,278	3,140	**1,427**	1,342	1,529	**1,565**	1,602	1,480	**243**	131	183	**6,601**	6,353	6,332
Net Income															
Canada	**1,063**	1,009	965	**401**	345	299	**537**	514	426	**(63)**	121	(20)	**1,938**	1,989	1,670
United States	**114**	115	124	**2**	4	10	**(80)**	347	351	**(103)**	5	(9)	**(67)**	471	476
Other countries	**187**	133	111	**5**	6	5	**(32)**	(1)	73	**100**	65	61	**260**	203	250
	1,364	1,257	1,200	**408**	355	314	**425**	860	850	**(66)**	191	32	**2,131**	2,663	2,396
Average Assets															
Canada	**118,748**	113,901	105,517	**4,787**	4,160	3,708	**94,125**	74,284	80,473	**(1,088)**	(416)	(1,574)	**216,572**	191,929	188,124
United States	**23,477**	21,890	21,055	**2,299**	2,379	3,345	**80,580**	61,220	52,570	**4,794**	4,828	5,819	**111,150**	90,317	82,789
Other countries	**416**	463	446	**5**	6	8	**32,379**	26,307	24,191	**53**	109	944	**32,853**	26,885	25,589
	142,641	136,254	127,018	**7,091**	6,545	7,061	**207,084**	161,811	157,234	**3,759**	4,521	5,189	**360,575**	309,131	296,502

Personal and Commercial Banking

Personal and Commercial Banking net income was $1,364 million in 2007, up $107 million or 9% from a year ago. Personal and Commercial Banking (P&C) combines our two retail and business banking operating segments, Personal and Commercial Banking Canada (P&C Canada) and Personal and Commercial Banking U.S. (P&C U.S.). These operating segments are reviewed separately in the sections that follow.

Personal and Commercial Banking (Canadian $ in millions, except as noted)

	P&C					P&C Canada					P&C U.S.				
As at or for the year ended October 31	**Fiscal 2007**	Fiscal 2006	Fiscal 2005	**Change from 2006 $**	**%**	**Fiscal 2007**	Fiscal 2006	Fiscal 2005	**Change from 2006 $**	**%**	**Fiscal 2007**	Fiscal 2006	Fiscal 2005	**Change from 2006 $**	**%**
Net interest income (teb)	**3,795**	3,681	3,561	**114**	**3**	**3,065**	2,941	2,829	**124**	**4**	**730**	740	732	**(10)**	**(1)**
Non-interest revenue	**1,856**	1,805	1,655	**51**	**3**	**1,678**	1,639	1,490	**39**	**2**	**178**	166	165	**12**	**7**
Total revenue (teb)	**5,651**	5,486	5,216	**165**	**3**	**4,743**	4,580	4,319	**163**	**4**	**908**	906	897	**2**	**–**
Provision for credit losses	**358**	344	299	**14**	**4**	**323**	314	269	**9**	**3**	**35**	30	30	**5**	**18**
Non-interest expense	**3,366**	3,278	3,140	**88**	**3**	**2,670**	2,597	2,481	**73**	**3**	**696**	681	659	**15**	**2**
Income before income taxes and non-controlling interest in subsidiaries	**1,927**	1,864	1,777	**63**	**3**	**1,750**	1,669	1,569	**81**	**5**	**177**	195	208	**(18)**	**(9)**
Income taxes (teb)	**563**	607	577	**(44)**	**(7)**	**500**	527	493	**(27)**	**(5)**	**63**	80	84	**(17)**	**(21)**
Net income	**1,364**	1,257	1,200	**107**	**9**	**1,250**	1,142	1,076	**108**	**9**	**114**	115	124	**(1)**	**(1)**
Amortization of intangible assets (after tax)	**33**	32	35	**1**	**7**	**8**	8	10	**–**	**–**	**25**	24	25	**1**	**4**
Cash net income	**1,397**	1,289	1,235	**108**	**8**	**1,258**	1,150	1,086	**108**	**9**	**139**	139	149	**–**	**–**
Net economic profit	**672**	633	668	**39**	**6**										
Cash return on equity (%)	**21.0**	21.0	23.4		**–**										
Productivity ratio (%)	**59.6**	59.8	60.2		**(0.2)**	**56.3**	56.7	57.5		**(0.4)**	**76.7**	75.2	73.4		**1.4**
Cash productivity ratio (%)	**58.9**	59.1	59.4		**(0.2)**	**56.1**	56.6	57.2		**(0.5)**	**73.2**	72.0	70.0		**1.2**
Net interest margin on earning assets (%)	**2.77**	2.82	2.93		**(0.05)**	**2.66**	2.66	2.76		**–**	**3.37**	3.67	3.81		**(0.30)**
Average common equity	**6,461**	5,994	5,191	**467**	**8**										
Average earning assets	**136,805**	130,576	121,552	**6,229**	**5**	**115,147**	110,433	102,326	**4,714**	**4**	**21,658**	20,143	19,226	**1,515**	**8**
Risk-weighted assets	**85,578**	89,716	85,011	**(4,138)**	**(5)**	**67,423**	69,734	65,642	**(2,311)**	**(3)**	**18,155**	19,982	19,369	**(1,827)**	**(9)**
Average loans and acceptances	**136,907**	130,937	121,240	**5,970**	**5**	**116,033**	111,499	103,153	**4,534**	**4**	**20,874**	19,437	18,087	**1,437**	**7**
Average deposits	**64,752**	61,980	61,200	**2,772**	**4**	**45,966**	43,998	42,554	**1,968**	**4**	**18,786**	17,982	18,646	**804**	**4**
Assets under administration	**33,258**	14,978	11,415	**18,280**	**+100**	**14,160**	12,741	9,346	**1,419**	**11**	**19,098**	2,237	2,069	**16,861**	**+100**
Full-time equivalent staff	**20,294**	19,353	18,534	**941**	**5**	**16,734**	15,825	15,100	**909**	**6**	**3,560**	3,528	3,434	**32**	**1**

P&C U.S. Selected Financial Data (US$ in millions)

As at or for the year ended October 31	Fiscal 2007	Fiscal 2006	Fiscal 2005	Change from 2006 $	%
Total revenue	**833**	799	739	**34**	**4**
Non-interest expense	**637**	602	542	**35**	**6**
Net income	**105**	102	104	**3**	**3**
Cash net income	**128**	123	123	**5**	**4**
Average assets	**21,524**	19,341	17,352	**2,183**	**11**
Average loans and acceptances	**19,136**	17,175	14,907	**1,961**	**11**
Average deposits	**17,218**	15,885	15,361	**1,333**	**8**

Personal and Commercial Banking Canada (P&C Canada)

serves over seven million customers. Working in partnership with other BMO businesses, we offer a full range of products and services. These include solutions for everyday banking, financing, investing, credit card and insurance needs as well as a full suite of integrated commercial and capital market products and financial advisory services. P&C Canada's extensive delivery network encompasses almost 1,000 BMO Bank of Montreal traditional and instore branches, telephone banking, online banking at bmo.com, mortgage specialists and our network of almost 2,000 automated banking machines. Our personal and commercial banking business is among the five largest in Canada.

Vision

Our goal is to be a leading customer-focused financial services provider, committed to meeting all of our customers' financial needs. We plan to achieve this by providing exceptional sales and service experiences that will build long-term relationships with our customers and drive revenue growth for BMO shareholders. Our comprehensive suite of products and services will continue to help our customers better manage all aspects of their financial affairs.

Strategies

We aim to succeed in the Canadian market by providing a high-quality, consistent customer experience and optimizing our sales and distribution network. Our main strategies are:

- Provide a differentiated customer experience and employ an appropriately aligned performance management system in our personal banking business.
- Accelerate growth in all segments of the commercial marketplace by continuing to build on our strengths in mid-market banking and improving performance in the small business segment.
- Further leverage our successful credit card product offering.

Our Lines of Business

Personal Banking provides solutions to everyday banking, financing, investing and insurance needs. We serve approximately 20% of Canadian households. Our national integrated multi-channel sales and distribution network offers customers convenience and choice in meeting their banking needs.

Commercial Banking provides our small business, medium-sized enterprise and mid-market banking clients with a broad and useful range of banking products and services. We offer a full suite of integrated commercial and capital markets products and financial advisory services.

Cards and Payments Services provides flexible, secure payment options to our customers. We are the largest MasterCard issuer in Canada.

Strengths

- Strong competitive position in commercial banking, reflected in our number two ranking in market share for business loans of $5 million and below.
- Superior risk management that provides our customers with consistent access to financing solutions in all economic conditions.
- Comprehensive range of everyday banking and payment capabilities, combined with our exclusive customer loyalty programs partnering with AIR MILES. No other bank in Canada offers such a broad rewards program for both debit card and credit card purchases.
- Competitive electronic transaction processing business through Moneris Solutions, which serves approximately 40% of the Canadian market.
- Integrated technology platform and customer data management capabilities, which support our effective sales and service model.

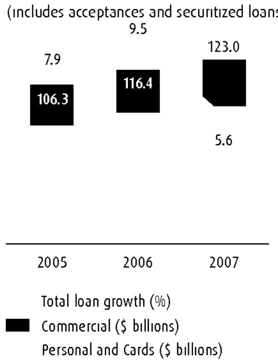
Challenges

- Increased pace of change and innovation provides customers with easy access to an expanding array of alternative products and services.
- Strong competition for deposit accounts is pressuring deposit margins and customer retention.
- Competition to attract and retain highly qualified employees has increased in high-growth sectors and regions.
- Demand for resources to meet regulatory, compliance, information security and fraud management requirements is increasing.

Key Performance Metrics and Drivers	2007	2006	2005
Personal banking, insurance and other revenue ($ millions)	**2,463**	2,370	2,313
Personal loan growth* (%)	**4.3**	10.9	9.3
Personal deposit growth (%)	**0.3**	0.4	4.4
Commercial banking revenue ($ millions)	**1,352**	1,274	1,208
Commercial loan growth* (%)	**8.1**	6.4	4.3
Commercial deposit growth (%)	**10.0**	7.6	11.1
Cards revenue ($ millions)	**928**	936	798
Cards loan growth (%)	**12.0**	7.0	7.4
Cash productivity ratio	**56.1**	56.6	57.2
Revenue growth (%)	**3.6**	6.0	7.3
Employee engagement index**	**75**	73	72

*Includes acceptances and securitized loans.
**Source: BMO's Annual Employee Survey, conducted by Burke Inc., an independent research company.

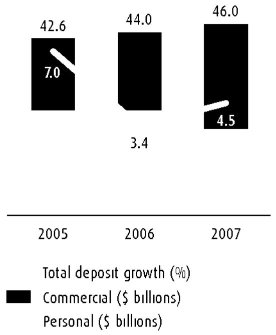
Loans* and Loan Growth
(includes acceptances and securitized loans)



Growth moderated due to our focus on branch-originated mortgages.

*Loans on balance sheet were $116 billion, $111 billion and $103 billion in 2007, 2006 and 2005.

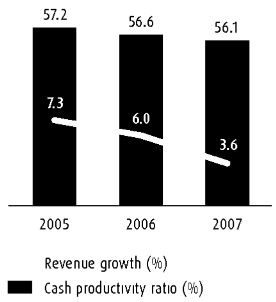
Deposits* and Deposit Growth



Deposit growth was fuelled by commercial deposits.

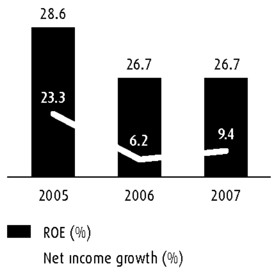
*Including PCG term balances, total deposits were $84 billion, $80 billion and $78 billion in 2007, 2006 and 2005.

Cash Productivity Ratio and Revenue Growth



Productivity improved as a result of both revenue growth and expense containment.

Net Income Growth and Return on Equity (ROE)



Revenue growth and expense containment drove higher net income and high ROE.

MD&A

2007 Group Objectives and Achievements

Improve the customer experience through business process improvements and leveraging our previous investments in people and technology.

- We continually improve branch processes to enhance the customer experience and increase front-line capacity. Our technology platforms have dramatically shortened the time needed to complete certain branch processes and we are using the time saved to improve the number and quality of our customer conversations.
- With our re-energized, customer-centric approach, we have enhanced several areas to provide easier multi-branch banking, more appropriate debit and payment limits and improved service in our direct channels.

Continue expanding and upgrading our branch network to better serve our customers in key markets.

- In 2007, we added 22 branches and instores in high-growth areas, redeveloped 31 others and closed 8 due to amalgamations. We are focused on opening branches in attractive growth markets and maximizing benefits from recently opened branches. Investing in branch infrastructure at a measured pace will ensure that customer service and relationship-based customer experiences can flourish.

Drive revenue growth and improve customer loyalty through a robust performance management system.

- Our branch and commercial scorecards were redesigned in 2007 and are at the heart of our enhanced performance management capabilities. We set targets starting at the branch level for both revenue growth and customer loyalty, and manage performance at every level of our organization. This degree of focus and alignment has accelerated progress toward our overall financial goals for 2007 and the future.

Improve performance in the small business segment.

- We restructured to create three new commercial districts in Toronto, Montreal and Vancouver, each managed by experienced senior leaders. Along with our improved performance management system, the implementation of commercial scorecards will balance alignment with overall goals and measures relevant to the commercial banking business. Our expertise in mid-market banking, sound risk management and historical strength in the commercial market will drive our growth. We are beginning to see a turnaround in the small business banking segment with market share in the $1 million and below category having improved 45 bps to 18.73% at the end of 2007.

2008 Group Objectives

- Continue to enhance the customer experience and create a differentiated position in the Canadian market.
- Launch attractive and compelling customer offers that drive results.
- Further improve our performance management systems to deliver stronger revenue growth and greater customer loyalty.
- Continue to invest in our sales and distribution network so we have the best opportunities to attract more business.
- Redesign core processes and technologies to achieve a high-quality customer experience, create capacity for customer-facing employees and reduce costs.

Canadian Business Environment and Outlook

Strengthening employment rates and sustained consumer confidence had a positive impact on personal banking in 2007. Residential mortgage balances continued to grow at a brisk pace, as the demand for housing remained strong, supported by rising incomes and steady, relatively low interest rates. Total personal deposits have reflected an upward trend in personal savings rates. Personal loan and credit card balances have also increased, benefiting from the strong employment market and consumer confidence. In commercial banking, robust business activity contributed to continued growth in business loans with some easing in commercial deposit levels.

Looking forward to 2008, we anticipate some moderation in growth. In personal banking, declining rates of growth in employment and income are likely to dampen growth in personal deposits, personal loans and credit card loans. Recent sharp increases in home prices are likely to restrain demand and slow residential mortgage growth. In commercial banking, non-residential mortgages and business loans are expected to remain at levels similar to 2007 and business deposit growth is expected to slow.

P&C Canada Financial Results

P&C Canada net income was a record $1,250 million, up $108 million or 9.4% from a year ago. Results in 2007 and 2006 reflected notable items that increased earnings in both years by comparable amounts. Net income in 2007 was increased $52 million by the net impact of: a $107 million ($83 million after tax) gain on the sale of MasterCard International Inc. shares, a $57 million recovery of prior years' income taxes, a $26 million ($23 million after tax) insurance gain and a $14 million ($9 million after tax) gain on an investment security, less a $185 million ($120 million after tax) adjustment to increase the liability for future redemptions related to our customer loyalty rewards program in our credit card business. Net income in 2006 was increased by the $51 million impact of a $38 million ($25 million after tax) gain on the MasterCard IPO and a $26 million recovery of prior years' income taxes.

In order to minimize future volatility in earnings, we are exploring options to transfer the customer loyalty rewards program liability and to change the cost structure going forward to eliminate our exposure to changing redemption patterns. We expect no significant change in run rate costs as a result of the charge or change in cost structure.

Revenue increased $163 million or 3.6% to $4,743 million. The impact of the notable items above reduced revenue growth by $76 million or 1.7 percentage points.

In our personal banking business, revenue increased $93 million or 3.9%. The increase was driven by the insurance gain, volume growth in personal loans and branch-originated mortgages, and increases in securitization revenue and sales of term investment products and mutual funds. These factors were partially offset by the impact of increased funding costs.

In our commercial banking segment, revenue increased $78 million or 6.1% due to volume growth and gains on securities. These factors were also partially offset by the impact of increased funding costs.

Cards and payment services revenue decreased $8 million or 0.8%. Revenue growth was reduced by $116 million by the net impact of the notable items. Improved revenues were attributable to volume growth.

P&C Canada's overall net interest margin was unchanged at 2.66%, as more favourable mortgage spreads were offset by increased funding costs.

Non-interest expense was $2,670 million, up $73 million or 2.8% from 2006 due to higher employee-related expenses as we expanded front-line sales and service staff, bcpbank Canada costs and increased promotional costs, including the AIR MILES debit card initiative. These factors were partially offset by lower allocated costs related to a share of capital taxes and efficiency improvements. Our cash productivity ratio improved 41 basis points from 2006 to 56.1%, but would have improved 132 basis points excluding the impact of the notable items. This follows a 65 basis point improvement in 2006, as revenue growth outpaced expense growth in both periods.

Personal and Commercial Banking U.S. (P&C U.S.) serves personal and business customers in select markets of the U.S. Midwest with a full range of products and services delivered through a community banking model that emphasizes local knowledge and commitment. An extensive distribution network of 232 convenient, attractive Harris branches, online banking at harrisbank.com, nearly 600 automated banking machines and an award-winning call centre support our strong focus on customer service.

Vision

Our goal is to be the leading personal and commercial bank in the U.S. Midwest. Our community banking business model leverages strong community leaders focused on developing and maintaining deep customer relationships by providing exceptional service and offering a broad range of products and services through an expanding distribution network. This approach underlies our successful growth in the highly competitive and fragmented Chicago market and provides us with a strategic advantage when entering new markets.

Strategies

- Deliver a best-in-class customer experience by emphasizing a strong performance culture and putting our best people in key positions with clear accountabilities.
- Align our personal, commercial and wealth management offerings to meet all of our clients' needs.
- Ensure that our technology and processes are efficient and support the delivery of a best-in-class customer experience.
- Expand our distribution network through a combination of completing acquisitions in the U.S. Midwest, increasing the size of our commercial sales force and opening new branches in select markets.

Our Lines of Business

P&C U.S. offers a full range of consumer and business loan and deposit products, including deposit and investment services, mortgages, consumer credit, business lending, cash management and other banking services.

Strengths

- A rich heritage of 125 years in the Chicago area, with the established Harris brand and a commitment to service excellence and relationship management.
- Superior market coverage, with 232 branches conveniently located in communities across the Chicago area and in Central and Northwest Indiana, as well as nearly 600 ABMs, allowing our customers to conduct transactions at any location.
- Deep relationships with local communities and businesses, and their leaders.
- A community banking business model focused on our customers, with competitive product offerings, a broad distribution network and strong sales management and marketing capabilities.
- Opportunity to leverage the capabilities and scale of BMO Financial Group while emphasizing local authority, accountability, knowledge and commitment.

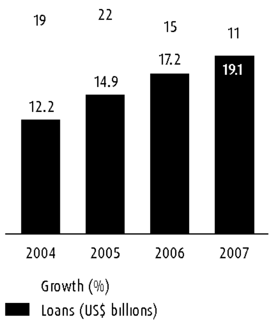
Challenges

- Chicago area market dynamics remain intensely competitive within a consolidating U.S. marketplace. In addition, Bank of America's recent acquisition of LaSalle Bank will alter the competitive landscape, presenting both challenges and opportunities.
- Expansion opportunities in the Chicago area are limited by the rising cost of new branches and the premiums that quality acquisitions command.
- Community banks are aggressively competing on price to achieve loan and deposit growth.

Key Performance Drivers	2007	2006	2005
Average US$ loan growth (%)	**11.4**	15.2	22.4
Average US$ deposit growth (%)	**8.4**	3.4	9.3
Cash productivity ratio (%)	**73.2**	72.0	70.0
Number of branches	**232**	202	195
Employee engagement index*	**72**	69	71
Retail Net Promoter Score**	**41**	39	34

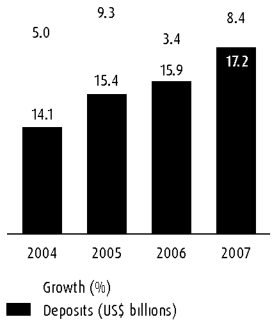
* Source: BMO's Annual Employee Survey, conducted by Burke Inc., an independent research company.
** A measure of the strength of customer loyalty.

Loans and Loan Growth



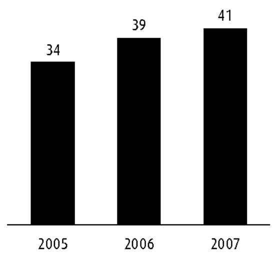
Loan growth remains strong but moderated in a softer real estate market.

Deposits and Deposit Growth



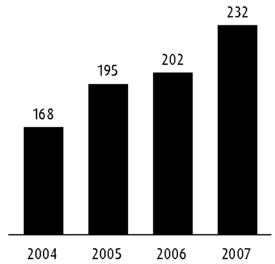
Deposit growth reflects increases in both personal and commercial deposits.

Retail Net Promoter Score



Customer loyalty continued to strengthen.

Number of Branches



The acquisition of FNBT added significantly to our branch network.

2007 Group Objectives and Achievements

Improve financial performance by growing revenue and managing costs.

- We achieved revenue growth of 4.1% in source currency. Expenses increased 5.9% with a 120 basis point deterioration in our cash productivity ratio. Excluding acquisition integration costs, quarterly earnings have increased each quarter since the fourth quarter of 2006. Management focused on controlling expense growth through reducing personnel by 4% and slowing branch expansion, as well as through other initiatives.

Continue to build our branch network by opening new branches in the Chicago area and exploring acquisition opportunities in the Midwest.

- Acquired and integrated First National Bank & Trust, adding 32 branches and 33 ABMs in Indianapolis and surrounding communities.
- Announced definitive agreements to purchase two Wisconsin-based banks: Ozaukee Bank, a community bank with six full-service and two limited-service locations in the affluent northern part of the greater Milwaukee area; and Merchants and Manufacturers Bancorporation, Inc., a holding company with six bank subsidiaries operating 34 full-service and 11 limited-service locations concentrated in the Milwaukee area. These transactions are expected to close in the first quarter of 2008, subject to approval from U.S. regulators and Ozaukee Bank shareholders, at which time a third of our branches will be located in Indiana and Wisconsin.
- Opened three new branches and closed or consolidated five branches. We opened fewer branches than our original goal in light of our cost control initiatives.

Continue to refine our customer experience, providing excellent service to retain existing customers, expand our relationships and attract new business.

- Our Retail Net Promoter Score increased to 41 from 39, reflecting strengthening customer loyalty.

2008 Group Objectives

- Improve financial performance by growing revenue and effectively managing costs.
- Continue to refine our customer experience, providing excellent service to retain existing customers, expand our relationships and attract new business.
- Improve sales force productivity across all our lines of business.
- Expand our commercial sales force in Chicago and surrounding areas.
- Continue our expansion in the U.S. Midwest.

U.S. Business Environment and Outlook

Chicago's financial services marketplace is one of the most fragmented in the United States, encompassing more than 250 banks. Harris and the two other largest banks have together held 25% to 30% of the personal and commercial deposit market since 1997. Nonetheless, new banks continue to enter this market. Competitors are also attempting to capture market share with unique distribution strategies, acquisitions, aggressive pricing and significantly increased brand marketing. In particular, Bank of America's recent acquisition of LaSalle Bank will shift the competitive dynamic by further consolidating the market. The Chicago area remains a highly contested market because of its fragmentation and the growth opportunities it presents.

We expect the local Chicago economy to grow at a moderate pace, consistent with overall growth in the U.S. economy. The implementation of tighter lending practices has prolonged the downturn in housing markets and will likely continue to dampen demand for residential mortgages. Consumer spending remains moderate, but it is at risk of weakening if home prices continue to fall. Business investment slowed late in 2007 but exports remained strong. The Federal Reserve could reduce interest rates further if the recent stress in capital markets persists. The U.S. Midwest economy is expected to strengthen modestly in 2008 as manufacturers should benefit from a weak U.S. dollar and strong global demand.

In 2008, we will continue to emphasize expansion in the U.S. Midwest through a combination of acquisitions and organic growth. We will strive to improve our financial performance by focusing on revenue growth and effectively managing costs. By building our business around enduring client relationships, we will continue to enhance our reputation as a high-quality, client-focused bank.

P&C U.S. Financial Results

P&C U.S. net income was $114 million in 2007, a $1 million or 1% decline from 2006. On a U.S. dollar basis, net income improved $3 million or 3%. Excluding acquisition integration costs, net income increased in each quarter of 2007 relative to the preceding quarter.

Revenue increased $2 million to $908 million, but increased $34 million or 4% on a U.S. dollar basis. Acquisitions contributed US$39 million to increased revenues, while revenue increases associated with loan and deposit volume growth and higher service charges were more than offset by the impact of lower net interest margins.

Net interest margin fell 30 basis points due to competitive pressures on loan pricing and a shift in customer preferences to higher-cost deposits. The overall decline in net interest margin was mitigated by pricing actions in certain deposit categories. Net interest margin was stable for most of fiscal 2007.

Non-interest expense increased $15 million or 2% to $696 million, but increased $35 million or 6% on a U.S. dollar basis. Excluding operating costs of acquisitions and the change in acquisition integration costs, which accounted for US$22 million of increased expense, growth was 2.3%. The remaining increase reflected operating costs of our new branch technology platform, increased costs associated with branches opened during fiscal 2006 and higher business volumes. These factors were partially offset by the impact of our expense management initiatives.

The P&C U.S. cash productivity ratio deteriorated by 120 basis points to 73.2%. Excluding acquisition integration costs, the cash productivity ratio was 71.6%.

Private Client Group (PCG) brings together all of BMO Financial Group's wealth management businesses. Operating under the BMO brand in Canada and Harris in the United States, PCG serves a full range of client segments, from mainstream to ultra-high net worth, as well as select institutional market segments. We offer our clients a broad range of wealth management products and services, including full-service and online brokerage in Canada, and private banking and investment products in Canada and the United States.

Vision

To be a leading wealth management solutions provider in Canada and in select U.S. markets, helping our clients to accumulate, protect and grow their assets.

Strategies

- Deliver exceptional client service.
- Provide best-in-class wealth management solutions with a focus on helping our clients invest and plan for their retirement years.
- Expand and retain our sales force and improve its productivity.
- Enhance our business models and invest selectively to create incremental value.

Our Lines of Business

Full-Service Investing offers a comprehensive range of investment and wealth advisory services through BMO Nesbitt Burns. We are focused on becoming the top-performing full-service brokerage firm in North America. BMO Nesbitt Burns will drive investment growth by leveraging our high level of client satisfaction, the strength and breadth of our product offerings and our performance-driven culture.

Online Brokerage operates as BMO InvestorLine in Canada, providing self-directed investors with the ability to plan, research and manage their investing decisions in their own way. We are focused on providing a superior client experience, understanding and anticipating our clients' investing needs and helping them to be financially successful. By providing an innovative and comprehensive online offering to key client segments, we will acquire new clients as well as increase investing activity among existing clients.

North American Private Banking operates as BMO Harris Private Banking in Canada and Harris Private Bank in the United States. We are focused on capitalizing on our comprehensive wealth management capabilities and continuing to build our integrated value proposition, which delivers a unique client experience to the high and ultra-high net worth client segments, with offerings ranging from specific individual solutions to complex team-based wealth management strategies.

Investment Products includes BMO Mutual Funds, Guardian Group of Funds, BMO Term Investments, Jones Heward Investment Counsel and Harris Investment Management. We help our clients build a strong future by providing trusted, long-term investment solutions, understanding our clients, competitors and industry and leveraging our robust multi-channel distribution capability. BMO Mutual Funds offers a targeted, comprehensive product line and supports specific life stage advice for key Canadian client segments. Guardian Group of Funds provides investment products and services delivered to retail investors through financial intermediaries – primarily the advisory channel. BMO Term Investments is focused on providing innovative principal-protected solutions and advice to the retail investment market. Jones Heward Investment Counsel and Harris Investment Management provide institutional money management services to external and internal clients.

Strengths

- Prestige, recognition and trust of the BMO and BMO Nesbitt Burns®* brands in Canada and the Harris brand in the United States.
- Strong national presence in the Canadian market and strategic footholds in select high-growth wealth management markets in the United States.
- Award-winning client offerings and industry-recognized leadership in client service.
- Access to BMO's broad client base and distribution network in Canada and the United States.

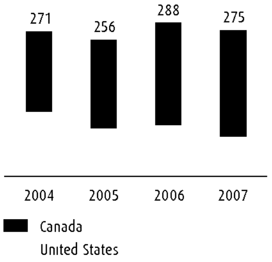
Challenges

- Accelerating growth and improving profitability in the United States.
- Retaining and expanding our first-class sales force in an extremely competitive market.
- Sensitivity to changing market and regulatory environment.

Key Performance Drivers	2007	2006	2005
Increase in assets under management (%) (1)	**8.6**	17.4	10.9
Increase in assets under management and administration and term deposits (%) (1) (2)	**6.9**	16.2	8.6
Revenue per full-time employee ($ thousands) (3)	**477**	452	417

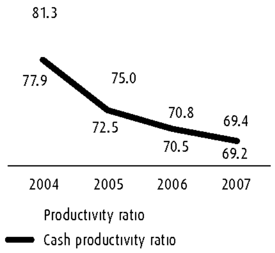
(1) Excludes the impact of changes in the Canadian/U.S. dollar exchange rate.
(2) Excludes the impact of the transfer of institutional trust and custody assets to P&C U.S. in 2007, the impact of the sale of Harris*direct* in 2005 and the exit of sub-custodial assets in 2004.
(3) Excludes $74 million of gains on asset sales in 2005.

Assets under Management and Administration including Term Deposits ($ billions)



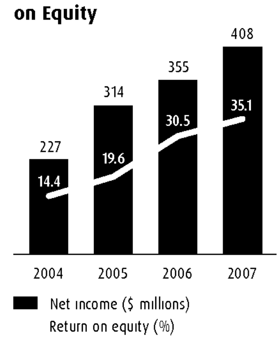
Assets decreased, but rose 7% normalized for the effects of the weaker U.S. dollar and a transfer to P&C U.S.

Productivity Ratio and Cash Productivity Ratio (%)



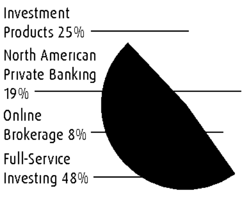
Productivity continued to improve in 2007.

Net Income and Return on Equity



Net income reached record levels again in 2007.

2007 Revenue by Line of Business (%)



U.S. wealth management accounts for 13% of total Private Client Group revenues.

2007 Group Objectives and Achievements

Grow our wealth management business by leveraging existing BMO and Harris client relationships and our distribution network.

- In the United States, referrals to and from Harris Private Bank increased by almost 80% over the previous year. Our Canadian sales force delivered consistently strong referral volumes that were above the high levels attained in the previous year.
- Private Client Group partnered with P&C Canada and P&C U.S. to successfully identify opportunities to better align the complexity of clients' needs with the appropriate solutions.

Expand our sales force and improve its productivity.

- Continued investments in the wealth management sales force, led by 17% growth in North American Private Banking sales roles.
- Partnered with P&C Canada to expand the retail investment sales force and improve its efficiency and effectiveness by hiring additional financial planners and financial service representatives in select markets.
- Invested in a program to improve investment advisor productivity through enhanced performance analysis and coaching.
- Invested in a new investment advisor technology platform, which will drive operational efficiencies and support increased client satisfaction and sales force retention.

Continue to enhance our business models through specific revenue-generating initiatives and ongoing expense management.

- BMO Mutual Funds launched eight new funds, including BMO Lifestage Funds Plus, an innovative product with a unique feature that locks in the highest daily value for investors during the life of the fund if they remain fully invested until the target end date.
- BMO Harris Private Banking launched enCircle® EXEC to extend the success of enCircle services for seniors, offering an all-in-one service to manage the financial affairs of busy professionals by providing access to professional assistance through concierge and lifestyle services.
- BMO Term Investments launched three new market-linked GICs offering participation in equity markets with the benefit of principal protection.

Invest selectively in our businesses where we have the opportunity to create incremental value.

- Invested in technologies that allow our sales force in North American Private Banking and Online Brokerage to improve customer insights and relationship management capabilities.
- Continued our focus on understanding the changing attitudes to retirement and providing relevant expertise and guidance. During the year we launched two new solutions:
  - Define Your Path, a life planning resource designed to help clients create, define and move toward personal and financial goals for retirement.
  - Best in Care, addressing our clients' need for information, services, emotional support and assistance by offering a comprehensive professional third-party information service that supports caregiver wellness and complements our enCircle® program.

Other Achievements

- BMO Harris Private Banking was selected Best Local Private Bank in Canada in *Euromoney Magazine*'s Global Survey of private banking services, marking the fourth consecutive year that the private bank has been recognized with one of the magazine's prestigious awards.
- Harris Private Bank was recognized in 2007 in *Euromoney Magazine*'s Global Survey as one of the top five local private banks in the United States.
- BMO Mutual Funds was awarded the Dalbar, Inc. Mutual Fund Service Award for best overall customer service in both the English and French language categories.
- Guardian Group Asian Growth and Income Fund received a Lipper Award in the Global Balanced – Equity Focus category for excellence in delivering consistently strong risk-adjusted performance.
- On November 2, 2007, Private Client Group announced an agreement to purchase Pyrford International plc, a United Kingdom-based institutional asset manager, expanding the Group's international asset management capabilities outside of North America. The transaction is expected to close in the first quarter of fiscal 2008, subject to regulatory approval.

2008 Group Objectives

- Enhance the client experience by streamlining our processes and providing enhanced tools and solutions designed to assist our clients in achieving their financial goals.
- Satisfy our clients' needs by continuing our high level of internal collaboration and referrals.
- Expand our sales force and innovate within sales channels to drive revenue growth.

Business Environment and Outlook

Canadian and U.S. stock markets rose appreciably in fiscal 2007. Accordingly, the overall investment climate was favourable for much of the year. This translated into significant growth in client trading activity and managed assets, with asset growth moderating in the latter half of the year.

Canadian interest rates have risen relative to rates in the United States and are likely to decline only modestly in 2008. U.S. interest rates are expected to decline in 2008 as the U.S. Federal Reserve moves to a less restrictive monetary policy.

We expect the Canadian and U.S. economies to grow modestly to moderately in 2008. Recent distress in credit markets and weakness in the U.S. housing market will likely contribute to continued volatility in equity markets. The prospect of further easing of monetary policy by the U.S. Federal Reserve should provide a supportive environment for bonds, with yields expected to remain below their recent cyclical highs.

The North American wealth management industry continues to be an attractive business and growth is expected to remain strong, with high net worth and aging baby boomer segments becoming increasingly significant. The high net worth market segment in North America is expected to expand faster than the mainstream banking market.

The wealth management industry is characterized by increasing reliance on advisors due to growing client sophistication and demand for personalized, high-quality, trustworthy advice. Achieving client retention and market share gains is becoming more challenging as competition among service providers intensifies. In addition, the regulatory environment continues to evolve, placing greater demands on service providers.

Private Client Group Financial Results

Private Client Group net income reached a record $408 million, an increase of $53 million or 15% over 2006. Higher earnings were achieved primarily through solid growth in operating revenues.

Revenue increased $161 million or 8% to $2,054 million. Non-interest revenue increased $117 million or 9%, primarily due to increases in fee-based revenue in Full-Service Investing and the mutual fund businesses, and growth in trust and investment revenue in North American Private Banking. Strong growth in assets and transaction volumes in BMO InvestorLine was offset by competitive pricing pressures in the industry. Net interest income increased $44 million or 8%, primarily due to increased deposit balances and spreads in the brokerage businesses and term investment products. The weaker U.S. dollar reduced revenue growth by $11 million or 1 percentage point.

Non-interest expense increased $85 million or 6% to $1,427 million. The increase was primarily due to higher revenue-based costs, in line with increased revenue, combined with further investments in our sales force, innovative products, technology and infrastructure to drive future growth. The weaker U.S. dollar reduced expense growth by $9 million or 1 percentage point. The group's cash productivity ratio improved by 136 basis points over the prior year.

All amounts in this paragraph are stated in U.S. dollars. Net income from U.S. operations was $2 million, a decline of $1 million from 2006. Revenue was relatively unchanged. Trust and investment revenue in Harris Private Bank grew 7% over the prior year, offset by spread compression in the loan portfolio and lower fee revenue in Harris Investment Management. Expenses increased $1 million, primarily due to investments in the Harris Private Bank sales force and increases in infrastructure costs within Harris Investment Management to support the strategic alliance with The Phoenix Companies, Inc. The previous year included the costs associated with Harris Insight Funds prior to the formation of our strategic alliance with Phoenix.

Private Client Group (Canadian $ in millions, except as noted)

Reported As at or for the year ended October 31	2007	2006	2005 (1)	Change from 2006 $	 %
Net interest income (teb)	**613**	569	578	**44**	**8**
Non-interest revenue	**1,441**	1,324	1,459	**117**	**9**
Total revenue (teb)	**2,054**	1,893	2,037	**161**	**8**
Provision for credit losses	**3**	3	4	**–**	**–**
Non-interest expense	**1,427**	1,342	1,529	**85**	**6**
Income before income taxes	**624**	548	504	**76**	**14**
Income taxes (teb)	**216**	193	190	**23**	**11**
Net income	**408**	355	314	**53**	**15**
Amortization of intangible assets (after tax)	**4**	4	38	**–**	**–**
Cash net income	**412**	359	352	**53**	**15**
Net economic profit	**286**	234	182	**52**	**22**
Return on equity (%)	**35.1**	30.5	19.6		**4.6**
Cash return on equity (%)	**35.4**	30.9	22.0		**4.5**
Productivity ratio (%)	**69.4**	70.8	75.0		**(1.4)**
Cash productivity ratio (%)	**69.2**	70.5	72.5		**(1.3)**
Net interest margin on earning assets (%)	**9.66**	9.99	10.41		**(0.33)**
Average earning assets	**6,352**	5,703	5,552	**649**	**11**
Risk-weighted assets	**4,822**	4,142	4,326	**680**	**16**
Average loans and acceptances	**5,637**	5,114	4,907	**523**	**10**
Average deposits	**45,304**	43,323	42,666	**1,981**	**5**
Assets under administration	**139,396**	155,008	134,093	**(15,612)**	**(10)**
Assets under management	**97,317**	96,112	87,382	**1,205**	**1**
Full-time equivalent staff	**4,362**	4,202	4,637	**160**	**4**

U.S. Business Selected Financial Data (US$ in millions)

As at or for the year ended October 31	2007	2006	2005 (1)	Change from 2006 $	 %
Total revenue	**243**	243	449	**–**	**–**
Non-interest expense	**240**	239	417	**1**	**–**
Net income	**2**	3	8	**(1)**	**(41)**
Cash net income	**4**	5	37	**(1)**	**(27)**
Average assets	**2,108**	2,100	2,754	**8**	**–**
Average loans and acceptances	**1,903**	1,889	1,891	**14**	**1**
Average deposits	**1,128**	1,314	1,804	**(186)**	**(14)**

(1) Fiscal 2005 results included operating results and gain on sale of Harris*direct*, our U.S. direct brokerage operation, and a gain on sale of TSX common shares.

BMO Capital Markets (BMO CM) combines all of our businesses serving a broad range of corporate, institutional and government clients in Canada and the United States. We also serve clients in the United Kingdom, Europe, Australia/Asia and South America.

BMO Capital Markets offers complete financial solutions, drawing upon our expertise in areas including equity and debt underwriting, corporate lending and project financing, mergers and acquisitions advisory services, merchant banking, securitization, treasury and market risk management, foreign exchange, derivatives, debt and equity research and institutional sales and trading.

Vision

To be recognized by clients and shareholders as the best and most disciplined integrated North American investment and corporate bank in our markets.

Strategies

- Continue to reinforce our leading position in Canada.
- Accelerate growth in the United States.
- Continue to improve the profitability of client relationships.

Our Lines of Business

Investment and Corporate Banking services include strategic advice on mergers and acquisitions, restructurings and recapitalizations, as well as providing valuation and fairness opinions. We provide capital-raising services through debt and equity underwriting. We also provide a full range of loan and debt products, balance sheet management solutions and treasury management services. In support of our clients' international business activities, we provide trade finance and risk mitigation services. We also offer a wide range of banking and other operating services to international and domestic financial institutions.

Trading Products services include sales, trading and research activities. We provide integrated debt, foreign exchange, interest rate, credit, equity, securitization and commodities solutions to wholesale, commercial and retail clients. In addition, we provide efficient funding and liquidity management to BMO Financial Group and its clients, as well as new product development, proprietary trading and origination.

Merchant Banking services include the sourcing, structuring and financing of private equity investments, primarily in North America.

Credit Investment Management offers investors products and services that use credit as a tool for asset management.

Strengths

- Well-established franchise with a leadership position in certain industries and products and a reputation for quality advice.
- Top-tier Canadian equity research, sales and trading capabilities.
- Largest presence of any Canadian investment and corporate bank in the U.S. Midwest.
- Cross-border capabilities with the ability to leverage North American expertise.

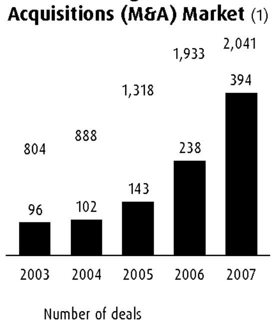
Challenges

- Mature Canadian market.
- Highly competitive U.S. investment and corporate banking market.
- Uncertainty in the current capital markets environment.
- Strength of the Canadian dollar.
- Focus in 2007 and first half of 2008 on reducing the size and risk profile of the commodities portfolio.

Key Performance Metrics and Drivers	2007	2006	2005
Trading products revenue ($ millions)	**281**	1,370	1,234
Equity block trading dollar value ($ billions)	**115.7**	92.3	73.9
Investment and Corporate Banking and other revenue ($ millions)	**1,688**	1,410	1,507
Equity underwriting participation (deals) (1)	**276**	267	268
Debt underwriting participation (deals) (1)	**110**	143	156
Average loans and acceptances ($ billions)	**69.6**	55.0	48.3
Equity research ranking (2)	**#1**	#1	#1

(1) Canadian issuers in North America.
(2) Brendan Wood International.

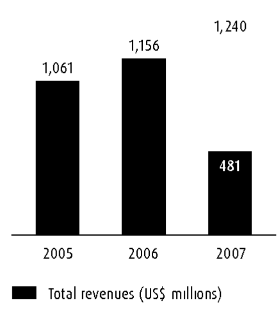
Canadian Mergers and Acquisitions (M&A) Market (1)



(1) For the 12 months ended September 30

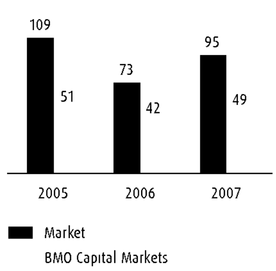
Another year of significant M&A growth.

U.S. Revenues



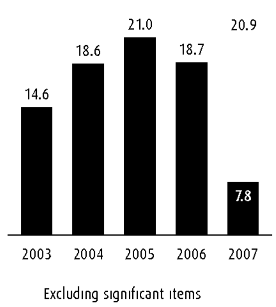
Continued solid growth in U.S. businesses other than commodities trading.

North American Debt Underwriting – Canadian Issuers ($ billions)



Continued strong participation in corporate debt markets.

Return on Equity (%)



ROE was strong, excluding the impact of significant items, despite an increase in equity.

2007 Group Objectives and Achievements

Continue to grow BMO Capital Markets U.S. revenues by increasing product penetration and improving cross-selling to the U.S. client base and by expanding trading activities and enhancing client coverage of key segments, with a focus on growing fee-based revenues.

- Considerable growth in fee-based investment banking revenues, exceeding targets per sector coverage officer established for 2007.
- Improvement in cross-selling performance compared to 2006 for both issuer and investor clients.
- Investment and Corporate Banking U.S. revenue up 24%, fuelled by successful recruitment of sector and product talent for key roles.
- Advised on 28 U.S. mergers and acquisitions totalling US$3.3 billion.
- Launched DirectLine® Healthcare Remittance to accelerate accounts receivable and insurance claims for U.S. healthcare service providers.

Implement a number of high-value initiatives to drive earnings growth in our Trading Products line of business.

- Broadened ability to serve companies listed on the London Stock Exchange and the Alternative Investment Market.
- Successfully expanded our presence in the structured products market, including the launch of structured GICs.
- Leveraged our Canadian market leadership to expand into the United States and Europe.

Maintain Canadian leadership in the high-return fee businesses of mergers and acquisitions, equity and debt underwriting and securitization.

- Announced intent to launch Alpha, a new alternative trading system, with six Canadian investment dealers in 2008.
- Capitalized on our leadership position in Canada to expand our global metals and mining capability in London and reinforced our mining sector leadership with several significant global transactions.
- Enhanced our annual BMO Capital Markets Global Resources Conference, extending its global profile.

Other Achievements

- Ranked as the top Equity Research Group in Canada for the 27th consecutive year in the Brendan Wood International Survey of Institutional Investors.
- Received our first M&A mandate in China, acting as sole financial advisor to Aluminum Corporation of China, the country's largest diversified metals and mining company, on its acquisition of Canadian-listed Peru Copper Inc.
- Delivered enhanced imaging solutions that increase the efficiency of deposits, payables and receivables management and enable faster responses to customer inquiries.
- Expanded global treasury management capabilities, offering clients a single point of access for global operations.
- Participated in 263 corporate and government debt transactions that raised $194 billion. Raised $56 billion through participation in 336 equity transactions.
- Advised on 76 completed mergers and acquisitions in North America totalling $41.5 billion.

2008 Group Objectives

- Continue to grow BMO Capital Markets U.S. revenues by increasing product penetration, improving cross-selling to the U.S. client base, expanding trading activities and enhancing client coverage of key segments, with a focus on growing fee-based revenues.
- Implement a number of high-value initiatives to drive earnings growth in our Trading Products line of business.
- Maintain Canadian leadership in the high-return fee businesses of mergers and acquisitions, equity and debt underwriting and securitization.

Business Environment and Outlook

Fiscal 2007 was a mixed year for BMO Capital Markets. A major portion of the year was characterized by favourable capital markets conditions, moderate economic growth and strong energy, metals and agricultural markets, resulting in robust mergers and acquisitions and debt underwriting levels. The yield curve was relatively flat, which proved challenging to our interest-rate-sensitive businesses, and the weaker U.S. dollar lowered the Canadian dollar equivalent of reported U.S. results. There were also challenges in our commodities trading business, as we incurred large losses related to our natural gas positions and our efforts to reduce the size and risk of our commodities portfolio. During the year, corporate banking assets continued to grow, in terms of both loans and undrawn commitment levels. The business environment remained very competitive and loan margins continued to be tight. Liquidity and credit concerns arose in the latter part of the year, as stress in the U.S subprime housing market spread to other credit markets.

Looking forward, we anticipate continued stress in credit markets, particularly in the Canadian ABCP market, which will slow the growth in our securitization business in 2008. The U.S. economic slowdown could negatively impact our trading volumes. Notwithstanding the recent Federal Reserve interest rate cuts, disruptions in money markets are keeping credit spreads and the cost of capital higher than normal. The higher cost of capital has reduced the attractiveness of acquisitions and leveraged buyouts by private equity firms and may also reduce mergers and acquisitions activity in the near to mid-term. This decrease could potentially be offset by strategic buyers coming into the market. An anticipated moderate steepening of the yield curve would likely produce a more favourable interest rate environment for our interest-rate-sensitive businesses in 2008. We expect to maintain our leadership in Canadian high-return fee businesses. However, growth in this area will depend on the performance of financial and commodities markets, as well as general economic activity and business confidence.

The Trading-Related Revenues section on page 38 includes a discussion of the $318 million of charges we recorded in the fourth quarter related to deterioration in capital markets. The charges included a $15 million charge for our investment in the capital notes of the Links and Parkland SIVs, which reduced the book value of BMO's investment in the capital notes of the SIVs to $53 million. The SIVs have approximately $2.2 billion of capital notes outstanding. During the fourth quarter, BMO agreed to participate in the senior notes issued by these SIVs up to a maximum of approximately $1.3 billion, in addition to our existing commitment for backstop liquidity facilities of $221 million, for a total commitment of approximately $1.6 billion, representing 8% of the SIVs' total senior debt outstanding as of October 31, 2007. At October 31, 2007, BMO had purchased approximately $350 million of the SIVs' senior notes. Subsequent to year-end, BMO purchased an additional $904 million of senior notes.

The assets of the SIVs consist of investment-grade structured finance and financial institution assets. They are high grade assets, as rated by external agencies, with more than 60% rated AAA, more than 85% rated AA or above, and 99% rated A or above. Less than 0.01% of the assets have direct exposure to U.S. subprime loans.

Given the amount of our investments in ABCP and the SIVs, and given the uncertainty in the capital markets environment, these investments could experience subsequent valuation gains and losses due to changes in market value.

BMO Capital Markets 2007 Financial Results

BMO Capital Markets net income declined $435 million to $425 million. Results in 2007 were affected by two significant items: losses in our commodities trading business of $853 million ($440 million after performance-based compensation adjustments and income taxes); and $318 million ($211 million after tax) of charges for certain trading activities and valuation adjustments related to the deterioration of the credit environment in late 2007. These included $169 million of losses related to our structured-credit instruments and preferred shares, a $134 million write-down related to Canadian asset-backed commercial paper holdings and a $15 million write-down of capital notes issued by structured investment vehicles. The foregoing losses are discussed in more detail in Trading-Related Revenues on page 38 and in the preceding Business Environment and Outlook section. Excluding the impact of significant items, net income increased $216 million or 25% to $1,076 million.

Revenue decreased $811 million or 29% to $1,969 million. Excluding the impact of significant items, revenue increased $360 million or 13%. The weaker U.S. dollar lowered revenue by $18 million.

Non-interest revenue decreased $1,012 million or 50% over the previous year due to the impact of significant items. Excluding those items, non-interest revenue increased $139 million or 7%. We continued to focus on growing our fee-based revenues, and several of our businesses performed exceptionally well during the year. It was a record year for mergers and acquisitions activity, with fee income up 45% from 2006. Equity and debt underwriting fees increased 43% and 18%, respectively, and net investment securities gains increased 17%. Excluding the impact of significant items, trading revenue decreased 2.1% from the prior year. There were significantly higher foreign exchange trading revenues in the current year. Interest rate trading revenue was up appreciably in the first nine months of the year before the downturn in capital markets. Commissions and lending fees were also much higher than in the prior year.

Net interest income increased $201 million or 26%, in large part due to growth in corporate banking assets. Of the aforementioned losses related to the deterioration in the credit environment, $20 million was reflected in net interest income. Spreads remained tight in our corporate lending portfolio, particularly in the competitive U.S. environment, and overall net interest margin fell modestly. Trading net interest income was higher, and there was also improved revenue in our interest-rate-sensitive businesses as a result of a more favourable interest rate environment for a large portion of the year. Trading net interest income consists of interest earned on trading assets less the costs of funding the assets.

The provision for credit losses was $77 million, compared with $79 million in 2006. The small reduction was primarily due to the favourable impact of the weaker U.S. dollar. BMO's practice is to charge loss provisions to the client operating groups each year using an expected loss provision methodology based on each group's share of expected credit losses over an economic cycle. Corporate Services is generally charged (or credited) with differences between expected loss provisions charged to the client operating groups and provisions required under GAAP.

Non-interest expense decreased $37 million or 2% to $1,565 million, primarily due to an overall decline in performance-based compensation, partially offset by higher professional fees and information technology costs. The weaker U.S. dollar reduced expense by $21 million.

The group's productivity ratio deteriorated from 57.6% to 79.4% largely due to the significant items described above. Excluding these items, the productivity ratio improved by 390 basis points to 53.7%.

BMO Capital Markets (Canadian $ in millions, except as noted)

Reported As at or for the year ended October 31	**2007**	2006	2005	**Change from 2006** $	%
Net interest income (teb)	**974**	773	966	**201**	**26**
Non-interest revenue	**995**	2,007	1,775	**(1,012)**	**(50)**
Total revenue (teb)	**1,969**	2,780	2,741	**(811)**	**(29)**
Provision for credit losses	**77**	79	98	**(2)**	**(3)**
Non-interest expense	**1,565**	1,602	1,480	**(37)**	**(2)**
Income before income taxes	**327**	1,099	1,163	**(772)**	**(70)**
Income taxes (recovery) (teb)	**(98)**	239	313	**(337)**	**(+100)**
Net income	**425**	860	850	**(435)**	**(51)**
Amortization of intangible assets (after tax)	**–**	–	1	**–**	**–**
Cash net income	**425**	860	851	**(435)**	**(51)**
Net economic profit	**(133)**	367	415	**(500)**	**(+100)**
Return on equity (%)	**7.8**	18.7	21.0		**(10.9)**
Cash return on equity (%)	**7.8**	18.7	21.0		**(10.9)**
Productivity ratio (%)	**79.4**	57.6	54.0		**21.8**
Cash productivity ratio (%)	**79.4**	57.6	54.0		**21.8**
Net interest margin on earning assets (%)	**0.60**	0.62	0.84		**(0.02)**
Average common equity	**4,972**	4,481	3,967	**491**	**11**
Average earning assets	**162,309**	124,782	114,866	**37,527**	**30**
Risk-weighted assets	**86,413**	66,908	56,745	**19,505**	**29**
Average loans and acceptances	**69,645**	55,042	48,347	**14,603**	**27**
Average deposits	**94,019**	77,027	71,883	**16,992**	**22**
Assets under administration	**57,590**	58,774	57,694	**(1,184)**	**(2)**
Assets under management	**23,233**	28,044	21,871	**(4,811)**	**(17)**
Full-time equivalent staff	**2,365**	2,213	2,156	**152**	**7**

U.S. Business Selected Financial Data (US$ in millions)

As at or for the year ended October 31	**2007**	2006	2005	**Change from 2006** $	%
Total revenue	**481**	1,156	1,061	**(675)**	**(58)**
Non-interest expense	**641**	641	540	**–**	**–**
Net income	**(56)**	306	287	**(362)**	**(+100)**
Average assets	**74,109**	54,137	43,392	**19,972**	**37**
Average loans and acceptances	**29,058**	21,959	17,161	**7,099**	**32**
Average deposits	**24,920**	16,620	14,253	**8,300**	**50**

Risk-weighted assets increased $19.5 billion due to growth in corporate loans and the adoption of a more conservative translation of certain of our trading and underwriting positions to risk-weighted assets for regulatory capital purposes. Also contributing to the increase was the adoption of global style backstop liquidity lines on BMO-sponsored Canadian ABCP conduits.

There was a net loss from U.S. operations of US$56 million, compared with net income of US$306 million in 2006. The deterioration was due to the U.S. operations' recording of a US$432 million share (net of performance-based compensation adjustments and income taxes) of commodities losses. In our other U.S. businesses, net income increased US$70 million, largely driven by growth in corporate banking assets, merger and acquisition activity, equity underwriting fees, commissions and investment gains. Excluding the significant items, net income from U.S. operations represented 42% of BMO Capital Markets net income in 2007, compared with 37% in 2006.

Corporate Services, including Technology and Operations

Corporate Services includes the corporate units that provide expertise and governance support to BMO Financial Group in areas such as strategic planning, law, finance, internal audit, risk management, corporate communications, human resources and learning. Our operating results include revenues and expenses associated with certain securitization activities, the hedging of foreign-source earnings, and activities related to the management of certain balance sheet positions and BMO's overall asset-liability structure.

Technology and Operations (T&O) manages, maintains and provides governance over information technology, operations services, real estate and sourcing for BMO Financial Group. T&O focuses on enterprise-wide priorities that improve service quality and efficiency to deliver an excellent customer experience.

Financial Results

Operating results for T&O are included with Corporate Services for reporting purposes. However, costs of T&O services are transferred to the three operating groups, and only minor amounts are retained in T&O results. As such, results in this section largely reflect the corporate services outlined above.

Corporate Services net loss for the year was $66 million, compared with net income of $191 million in 2006. Excluding the $159 million restructuring charge ($103 million after tax), net income fell by $154 million, mostly due to reduced revenues and higher provisions for credit losses, including the impact of changes in the general allowance, partially offset by lower corporate expenses.

BMO's practice is to charge loss provisions to the client operating groups each year, using an expected loss provisioning methodology based on each group's share of expected credit losses over an economic cycle. Corporate Services is generally charged (or credited) with differences between expected loss provisions charged to the client operating groups and provisions required under GAAP.

Corporate Services, including Technology and Operations

(Canadian $ in millions, except as noted)

Reported As at or for the year ended October 31	**2007**	2006	2005	**Change from 2006** $	%
Net interest income (teb)	**(359)**	(152)	(199)	**(207)**	**(+100)**
Non-interest revenue	**214**	105	163	**109**	**+100**
Total revenue (teb)	**(145)**	(47)	(36)	**(98)**	**(+100)**
Provision for (recovery of) credit losses	**(85)**	(250)	(222)	**165**	**66**
Non-interest expense	**243**	131	183	**112**	**87**
Income before income taxes and non-controlling interest in subsidiaries	**(303)**	72	3	**(375)**	**(+100)**
Income taxes (recovery) (teb)	**(312)**	(195)	(87)	**(117)**	**(60)**
Non-controlling interest	**75**	76	58	**(1)**	**(1)**
Net income	**(66)**	191	32	**(257)**	**(+100)**
Full-time equivalent staff	**8,806**	9,174	8,458	**(368)**	**(4)**

U.S. Business Selected Financial Data

(US$ in millions)

As at or for the year ended October 31	**2007**	2006	2005	**Change from 2006** $	%
Total revenue	**(96)**	(86)	(75)	**(10)**	**(8)**
Provision for (recovery of) credit losses	**17**	(84)	(77)	**101**	**+100**
Non-interest expense	**–**	15	51	**(15)**	**(+100)**
Income taxes (recovery)	**(31)**	(39)	(58)	**8**	**20**
Net income	**(100)**	4	(9)	**(104)**	**(+100)**
Average assets	**4,391**	4,260	4,800	**131**	**3**

MD&A

Financial Condition Review

Summary Balance Sheet ($ millions)

As at October 31	**2007**	2006	2005	2004	2003
Assets					
Cash resources	**22,890**	19,608	20,721	18,045	19,860
Securities	**98,277**	67,411	57,034	49,849	54,790
Net loans and acceptances	**201,188**	190,994	174,337	156,248	146,156
Other assets	**44,169**	41,965	41,770	36,764	35,688
	366,524	319,978	293,862	260,906	256,494
Liabilities and Shareholders' Equity					
Deposits	**232,050**	203,848	193,793	175,190	171,551
Other liabilities	**114,330**	96,743	82,158	69,005	68,455
Subordinated debt	**3,446**	2,726	2,469	2,395	2,856
Preferred share liability	**250**	450	450	450	850
Capital trust securities	**1,150**	1,150	1,150	1,150	1,150
Shareholders' equity	**15,298**	15,061	13,842	12,716	11,632
	366,524	319,978	293,862	260,906	256,494

Total assets increased $46.5 billion or 14.5% from last year to $366.5 billion at October 31, 2007. There was a $30.8 billion increase in securities, a $10.2 billion increase in net loans and acceptances, a $2.2 billion increase in other assets and a $3.3 billion increase in cash resources.

Total liabilities and shareholders' equity increased $46.5 billion or 14.5%. There was a $28.2 billion increase in deposits, a $17.6 billion increase in other liabilities, a $0.7 billion increase in subordinated debt, a $0.2 billion increase in shareholders' equity and a decrease of $0.2 billion in preferred share liability.

Securities ($ millions)

As at October 31	**2007**	2006	2005	2004	2003
Investment	**–**	14,166	12,936	15,017	19,660
Trading	**70,773**	51,820	44,087	34,821	35,119
Available-for-sale	**26,010**	–	–	–	–
Other	**1,494**	1,414	–	–	–
Loan substitute	**–**	11	11	11	11
	98,277	67,411	57,034	49,849	54,790

Available-for-sale securities increased $11.8 billion from $14.2 billion (of investment securities) in 2006, primarily due to the holding of BMO-underwritten Canadian mortgages in the form of government-insured mortgage-backed securities. Trading securities increased $18.9 billion to $70.8 billion due to an increase in corporate debt securities, including high-quality, highly liquid securities purchased to maintain a strong liquidity position, $5.9 billion of asset-backed commercial paper issued by bank-sponsored conduits and an increase in equities due to higher equity valuations, growth in our equity-linked notes and other equity derivatives businesses. The weakness in the U.S. dollar reduced the growth in trading securities by $3.9 billion. Note 3 on page 97 of the financial statements provides further details on securities.